WORLD CHRONICLE

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GUEST: Gerald Hinteregger
Executive Secretary
U.N. Economic Commission for Europe

JOURNALISTS: Paul Lewis, The New York Times
Walter Pfaeffle, Kuwait News Agency
Michael Kallenbach, Daily Telegraph

MODERATOR: Claude Robinson

SYNOPSIS

Gerald Hinteregger, Executive Secretary of the United Nations Economic Commission for Europe, discusses the rapidly changing realities in Europe that have turned the region into a laboratory for integrating the East and West economies. Mr. Hinteregger suggests specific ways for business communities to facilitate East-West trade and economic co-operation.

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Executive Producer: Yuanchi Chen
Director: Livingston Hinckley
Production Assistant: Diane Barkley

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VOICE From United Nations Headquarters in New York, this is World Chronicle, an unedited interview programme about major global issues. Here now to introduce our guest is the host of today's World Chronicle.

ROBINSON: I'm Claude Robinson and this is World Chronicle.

With the sweeping political changes that have taken place in 1989, the Eastern European countries have intensified their efforts in economic reform. As a result, trade and economic co-operation between Eastern and Western Europe are entering an historic new phase. Doors once closed are now wide open, opportunities for investment and joint enterprises have greatly increased. The question is: where will this lead, for individual countries and for Europe as a whole? Is an integrated European economy possible?

Our guest today, Gerald Hinteregger of Austria, is Executive Secretary of the United Nations Economic Commission for Europe, or ECE, which is the only permanent intergovernmental organization for East-West economic co-operation. Mr. Hinteregger will be interviewed here at United Nations Headquarters in New York by: Paul Lewis of The New York Times; Walter Pfaeffle of the Kuwait News Agency; and Michael Kallenbach of the Daily Telegraph of London.

Mr. Hinteregger, welcome to WORLD CHRONICLE.

ROBINSON: As we implied in the introduction, we're now looking at the possibility of an integrated Europe. Is this a dream or is it a reality or is it one of those things somewhere in between?

HINTEREGGER: Well, first of all I think one would have to ask the question what does one mean by integration. There are various forms and various degrees of integration. If we look at Europe as a whole, one could even say at the present it's a laboratory for various types of integration. You have the most intense and the most far reaching blueprint for integration which is the single market of the European Communities but you have other groupings like the European Free Trade Area, you have the CMEA, the Council for Mutual Economic Co-operation or COMECON which is the Eastern grouping which at present is really asking itself the question what it's future role will be because there you have a very strong impact of course of reforms in the individual CMEA countries. Now if you look at Europe as a whole, the question is how will these integration movements in the various groupings impact on integration, co-operation in the European context and here of course we have also a very dynamic development. A very important event was of course the establishment of official relations between the European Community and CMEA in 1988. We have at present the beginning of negotiations between the European Community and EFTA countries, with the aim of establishing the European Economic Space which will comprise 18 countries, (the 12 plus the six) and we have, of course, the question as to how the Eastern European economies will integrate into the Western system of trade and co-operation. So if you ask me if an integrated Europe is just a dream or whether it is a realistic objective I think first of all we have to see how economic reforms in the East succeed, whether they really achieve a stage in industrial development in competitiveness, in openness to the West, that will allow for their full integration into the world economy.

ROBINSON: Is that to say that the first stage of integration must be a successful transition to Western style market economies?

HINTEREGGER: Well, at least movement toward that objective and it can only be a gradual process.

LEWIS: Could you tell us something about the Economic Commission for Europe itself and what it actually does because it seems to me that we have a lot of international organizations already dealing with European matters. We've got the OECD, we've got the European Community, we've got EFTA, we've got GATT, we've even got the new East European Development Bank and increasingly the East European countries are applying for membership of the OECD or moving towards some kind of associate status with EFTA and conceivably with the Community so I don't quite understand what you have to contribute?

HINTEREGGER: First of all, the Economic Commission for Europe of the United Nations is the oldest of all the European organizations. It was established in 1947 so one could argue that it's the others that moved into the field of activity of East-West co-operation later and some of them only very recently. If you take OECD for instance, until very recently OECD was not engaged in any kind of East-West contact. Also the European Community opened up toward the East only after the establishment as I mentioned of official relations in 1988. As far as EFTA is concerned, it has been approached by Eastern countries also with a view to even reaching some kind of institutional arrangement but EFTA so far has not found a formula yet how to deal with that. But I think the question is legitimate with this considerable number of organizations that are now busy in East-West co-operation what is the respective role of each and every one of them including the Economic Commission for Europe. Well, I think one would have to look at the record of the various organizations in order to really find out what their comparative advantage is because this would be my approach to the whole question that each organization should do

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what it can do best and we should not to try to duplicate and certainly the ECE should not try to compete with organizations in areas where they are stronger because they have more resources available than we have. But one should not forget that the ECE, as was mentioned in the introduction, has been and still is the only intergovernmental organization that comprises the whole region. That means where all European countries, with very few exceptions -- both East and West plus the United States and Canada are members -- and we have I think still important things to contribute. First of all, in some areas the ECE has served as a framework for the elaboration of binding legal instruments. In the field of transport alone more than 50 conventions, including the TIR Convention which facilitated tremendously the transport of goods by road, have been adopted and are being applied. We are now in the process of elaborating a number of legal instruments in the field of environment and our advantage is that we have this very broad membership. That means those instruments that are being elaborated in our context apply to all member countries of ECE and no other organization can claim that. Second area where I think we can make an important contribution: after all we have been active in various fields for more than 40 years and the way we have operated is that in the Secretariat we have experts from both West and East and in our intergovernmental machinery which is quite elaborate, we have about 47 subsidiary organs -- some of them highly specialized. This has been a meeting ground for experts from both West and East and as far as I'm concerned I think this is an asset which should be underestimated because even now when we talk about assistance to Eastern European economies in this transition toward a market oriented economy it is one thing to provide expertise from the West, it's another thing to apply this expertise to entirely different conditions in the East.

ROBINSON: Mr. Hinteregger, I'm sure you've established your credentials beyond any doubt. Walter Pfaeffle, do you want to pick up the questioning at this point?

PFAEFFLE: Yes, I'd like to pick up on this. It was said before that these Eastern countries would have to introduce market oriented economies before any kind of foreign investment will go into these countries. Now still yet in some of these countries you can see efforts of restoration. In other words, they are trying to find some kind of a middle way between a market oriented economy and a centrally oriented economy. Do you think such a middle way is possible at all?

HINTEREGGER: Well, first of all I think we must ask ourselves the question when we talk about market economy which type of market economy are we talking about. There is no such thing as a pure market economy even in the West. You have various types of government intervention, all types of macro economic instruments. You have countries in the West which are considered market economies with the relatively important sector of state-owned industries, so there are as I say, there is a pretty broad range of variations of market economies on the one side and if you look at what governments in the East are doing now they are analyzing the various countries as to exactly the type of macro economic instruments they have or the solutions they've found for instance for the problems in the state sector, in the public sector of the economy. The second question is of course one cannot generalize. That means the conditions in each of the Eastern European countries are quite different one from another so one can also not think in terms of one model being applied to all those countries in the same way and already now, although we are in a pretty early phase of definition of their reform plans we can see already that while, let's say the general objective of introducing market economies is common to

all these countries, the roads to those measures and let's say the approaches and the degree of introduction and the pace of introduction of these measures differ now already from one country to the other. So your question whether a mixed type of economy is a viable form I think is difficult to answer because we still don't know how these various approaches will succeed and as I say there's no single blue print for that and I think we witness a process of trial and error where certain measures are being introduced; then they may be found insufficient, then those governments carry them a step further or they say well, no this may not have been the right approach, we have to take another tack.

PFAEFFLE: In East Germany for instance they have criticized the East Germans for going very slowly on changing their so-called joint venture laws and others. I think just a few days ago the East German allowed joint ventures owned more than 50 percent by Western companies but this only applies to small companies having fewer than 500 workers. It is still closed to the large combines. Now this sort of thing I think may just prevent the kind of development that we're hoping to take place in these countries because if Western capital just doesn't go in there nobody feels that they should just be responsible for paying the bills and not reaping the benefits.

HINTEREGGER: I think as I said we have to look at this as a process and also the point was made, and I think this is a very important point, one has to take into account what is politically feasible, practicable at the given moment, also what develops and while not too long ago the GDR said no foreign investment well they have come already an important way. They may come to the conclusion that this is not sufficient and we have witnessed this in other countries. Take even Poland. There was a phase when only a certain limited investment was

allowed now they are going far beyond that allowing even 100 percent property of Western interests in enterprises in Poland.

ROBINSON: Before we move on to Michael Kallenbach, the programme is **WORLD CHRONICLE.** Our guest is Gerald Hinteregger, Executive Secretary of the United Nations Economic Commission for Europe.

KALLENBACH: Surely one of your objectives of the ECE is to bring East-West trade closer to its potential and I'd like to ask you how are you going to deal with all these different economies, all these different countries now going through radical changes? And you're going to have Western investors, who're going to be increasingly impatient and saying we want to put our money here but the changes are not happening fast enough or we're putting our money in here when are we going to realize some profit back or is it going to be two, three years down the road before we actually know what's going on? I mean a lot of the countries don't have proper communications links and even contact would be very difficult so how would the ECE play a role in helping countries in Eastern Europe improve their conditions to attract Western investors?

HINTEREGGER: Here, I think I should explain very briefly how we function. The ECE functions on the principle of consensus of all member countries. Now as we go along the programme of work is being defined and is being modified by the respective intergovernmental bodies including the Committee for the Development of Trade which would be the responsible committee for trade and industrial co-operation. Now it is in those bodies, and in their subsidiary bodies, that experts of member countries come up with the respective interests and priorities. Now as we go along I think all these changes of course will reflect and they do it already, on the programme of

work, on the definition of priorities, on the specification as to our work. Now we have a great number of specialized projects on various aspects let us say of trade and industrial co-operation. To give you one example, a subject which was rather controversial has now been included in our programme of work on compensation trade. Here we try to identify the problems that are connected with compensation trade and also come up, if possible, with suggestions for solutions of such problems.

ROBINSON: What do you mean by compensation trade?

HINTEREGGER: Well, various forms of compensation trade like buyback arrangements but also counter trade, which is a form of East-West trade made more or less indispensable under present circumstances because of a lack of hard currency on the part of Eastern countries but it has been criticized by Western countries that compensation trade of course is not an ideal form of trade. Or take another area, that of industrial co-operation, joint ventures for instance. We were I think the first organization that published a comprehensive analysis of joint ventures and now we have come out with a guide on joint ventures which is intended to assist Western enterprises and Eastern enterprises for that matter, to enter into this new kind of arrangement. So what we do to help them is first of all to analyze the environment -- that means the legal provisions, the administrative procedures but also practical questions of how to set up such a joint venture from the point of view of the contract that has to be negotiated and so on. So we are trying to approach these matters in a rather practical way and we involve also the business communities. We are not only an organization that consists of governmental representations. To give you one example, we had not too long ago a very interesting seminar on leasing which is I think is a form of co-operation

between East and West which has an important future also because of the lack or the scarcity of hard currency on the Eastern side. Now, there we had a very broad representation of business interests, both from East and West, because also in the West we must start to think of a business community that is emerging as the enterprises become more and more autonomous in their own activities. So as I say it is an approach which, while we of course also have the overview, also tackles rather specific problems that have arisen in East/West trade and co-operation.

LEWIS: I'd like to ask you whether you think that free trade and fair competition will ever be possible between East and West Europe in the foreseeable future because some people say that for decades to come it will be impossible to tell which exports are being subsidized in Eastern Europe and which aren't so we will go towards a system of managed trade, not free trade but managed trade, and that will set a very dangerous precedent for the international trading system as a whole.

HINTEREGGER: Well, I think that one of the needs also of those Eastern countries is to reduce drastically their subsidies and they have already started to tackle this problem but of course here we have to face one basic question and that is what can be done to help them to increase their competitiveness. If we are really honest on the side of Western countries to say alright we want to facilitate the integration of those countries into the world economy, into world trade, well I think there are a number of things that have to be done to assist them in becoming more competitive because unless they become more competitive they will not be able to earn the hard currency they need to increase their imports from the West. Now, if we look at trade in general I think one also has to admit that not all of it is free trade even among Western trading nations. Part of

it is managed trade in some specific areas. I mean to talk about agricultural trade for instance this certainly cannot be considered a completely free type of trade. The question only is how long can the Western system of free trade grant certain exceptions to those countries to help them integrate into the Western system.

ROBINSON: But specifically though, what do you think needs to be done to make the Eastern European countries more competitive? You've raised the question yourself. What needs to be done in concrete terms?

HINTEREGGER: I would say that this is a very complex question of course which addresses all kinds of different problems. First of all, it is a question of quality of production. It is a question of productivity, of manpower in the East. It is a question of design of products. It is a question of marketing and it's also a question of trade promotion because we must not forget that also the Western trading nations of course put a lot of emphasis into the promotion of their trade, also at the governmental level. If you take for instance the network of representations abroad -- trade representatives, trade attachés, chambers of commerce, semi official organizations -- there is a lot that is being done to promote trade and I think the Eastern countries will have to learn how to promote trade. They will have to learn how to market their products, they will have to learn how important it is to service their products in many areas.

PFAEFFLE: The more immediate problem of course is not just economic but when you look at the numbers that come from East Germany or from other parts of Europe into West Germany that will cause considerable strains on the West German economy and is your organization doing anything to deal with this problem? We're talking about 500,000 East Germans coming into West Germany this year alone, so?

HINTEREGGER: You see we are not an organization which you may call operational. We are on the one hand an organization which does analytical work and on the other hand which does work in various specific fields as I mentioned. Now, in our analytical work I am sure that we have to pay attention also to the question of migration in a European context. We have for instance one area of activity on population questions and we are just finishing a project on migration in the Mediterranean region because migration will play a more and more important role in Europe also in the East-West context and I fully agree with you that the economic consequences of migration in the East-West context, not only let's say between the two Germanys but in a broader sense, will certainly also have a very important impact on economic developments.

KALLENBACH: Looking ahead if you could look at your crystal ball to the future of the EEC countries, do you see East Germany becoming a member of the EEC, a confederate member, an associate member and do you also see a single currency for the two Germanys?

HINTEREGGER: Well, this, of course, is already going into the area of guesswork and it is a highly political question. Looking at the situation now I would say that already at present the economic relations between the GDR and the European Community through the special arrangements between the GDR and the FRG are very close and are a fact of life and if one judges correctly, the indications of the statements made by politicians I think it is quite clear that economic co-operation, and even certain steps towards integration of the GDR into the community, are clearly seen on the horizon. Now, whether this will in the foreseeable future lead to a full membership of the GDR is another question and here I think we have to look at the political situation in a broader context.

For instance, the Soviet Foreign Minister simply has made it quite clear that this is not only a matter for the two Germanys to decide but that here one has to look at Europe as a whole, at the process of European integration, also in the political sense, at the responsibilities of the four Allied powers which still exist as far as Germany is concerned. So this is a much more complex question but I would foresee that as far as economic matters are concerned that things may move much faster than as far as the political situation is concerned.

ROBINSON: Assuming the process works, which countries in Eastern Europe are furthest along the way to transition? Poland, Hungary? How do you see it?

HINTEREGGER: Here I would see two aspects which are relevant. One is those countries that have started earliest with the reforms and those certainly are Hungary and Poland so in some ways they are ahead of the others. But I would also apply another criterion and that is the general level of industrial development and here I think you have countries like the GDR and Czechoslovakia that may have a stronger potential for a quicker development in the way of introducing elements of market economy.

ROBINSON: And all of this will happen before 1992?

HINTEREGGER: Well, I don't think all that can happen before 1992 because personally I believe that while we are witnessing very rapid progress as far as the political changes are concerned I think the transition from a centrally planned economy to a market economy, or even to a mixed economy will take much longer.

ROBINSON: Mr. Hinteregger, that's all the time we have. Thank you for joining us on this edition of **WORLD CHRONICLE.**

Our guest has been Gerald Hinteregger, Executive Secretary of the United Nations Economic Commission for Europe. He was interviewed here at United Nations Headquarters in New York by: Paul Lewis of The New York Times; Walter Pfaeffle of the Kuwait News Agency; and Michael Kallenbach of The Daily Telegraph of London.

I'm Claude Robinson. Thank you for joining us. We invite you to be with us for the next edition of **WORLD CHRONICLE.**

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